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January 4, 2002

Ms. Magalie Roman Salas Secretary Federal Communications Commission 445 12th Street, SW Washington, D.C. 20554

Re: Federal-State Joint Board on Universal Service, CC Docket No. 96-45.

Dear Ms. Salas,

Pursuant to Sections 1.415 and 1.419 of the Commission's Rules, enclosed please find the Reply Comments of the Ad Hoc Telecommunications Users Committee in the above-captioned matter.

If you have any questions regarding this filing, please do not hesitate to contact me.

Sincerely,

James S. Blaszak

Before the FEDERAL COMMUNICATIONS COMMISSION Washington, D.C. 20554

In the Matter of)	
)	
Federal-State Joint Board on)	
Universal Service)	CC Docket No. 96-45

REPLY COMMENTS OF THE AD HOC TELECOMMUNICATIONS USERS COMMITTEE

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January 4, 2001

SUMMARY

The Ad Hoc Telecommunications User Committee ("Ad Hoc" or "the Committee") reiterates its support for a universal service mechanism for rural and non-rural carriers alike that is explicit, targeted, competitively neutral, and properly sized to support universal service and nothing more.

The Federal-State Joint Board on Universal Service ("Joint Board"), in an August 21, 2001 *Public Notice*, requested comments on whether the definition of universal service should be expanded. Like Ad Hoc, many other parties oppose adding services to the list of core services eligible for federal universal service support at this time. Expanding the definition of universal services beyond its primary purpose would raise the price of basic services for all consumers or reduce the level of USF support for existing core services. Neither outcome would serve the public interest, particularly given the evidence that consumers are adopting use of advanced services at a rate that equals or betters recent consumer market technology products. The Joint Board and the Commission should be careful not to confuse a low initial take rate with a supply problem.

Moreover, adding specific technology services to the list of core services eligible for federal universal service support would create an ill-advised Commission-mandated advantage for that technology at a time when the Commission has emphasized the importance of competitively neutral policies.

¹ Federal-State Joint Board on Universal Service Seeks Comment on Review of the Definition of Universal Service, CC Docket 96-45, Public Notice, FCC-01-J-1 (rel. August 21, 2001) ("Public Notice").

Finally, the Commission should not expand the core services list to include "soft dial tone" service, toll service or expanded local area calling. Soft dial tone raises significant operational and economic issues that should be first addressed outside this proceeding. The affordability of toll service and expanded local calling are fundamentally intrastate rate structure issues that also raise important competitive neutrality concerns.

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Before the FEDERAL COMMUNICATIONS COMMISSION Washington, D.C. 20554

In the Matter of)	
Federal-State Joint Board on)	
Universal Service) CC Docket No. 9	96-45
)	

REPLY COMMENTS

The Ad Hoc Telecommunications Users Committee ("Ad Hoc" or "the Committee") hereby submits its reply comments in response to initial comments filed pursuant to the Federal-State Joint Board's ("Joint Board") August 21, 2001 *Public Notice*² seeking comment on its review of the definition of Universal Service.

I. Introduction

Ad Hoc's members are among the nation's largest high-volume consumers of telecommunications services and facilities. The Committee is committed to the development of regulatory rules and policies that promote the availability of high quality telecommunications services and facilities at reasonable prices. To that end, Ad Hoc has consistently supported universal service subsidies, provided that those subsidies are properly sized, collected, and distributed in an economically efficient and pro-competitive manner.

² Federal-State Joint Board on Universal Service Seeks Comment on Review of the Definition of Universal Service, CC Docket 96-45, Public Notice, FCC-01-J-1 (rel. August 21, 2001) ("Public Notice").

The Federal Communications Commission recently asked the Joint Board to review the list of nine "core services" that are currently eligible for universal service support³ and the Joint Board sought comments on "what services, if any, should be added to or removed," from the list of core services.⁴ Comments in reply to the Joint Board's *Notice* focused on, in particular, whether voice grade access should be redefined to a frequency range of 200 to 3,500 Hz; whether advanced, or high-speed services should be added to the list of core services; whether "soft dial tone" or "warm line" services should be included in the core services list; and whether intrastate or interstate toll services and expanded area service should be included in the core services list.⁵ These Reply Comments address comments focused on those issues.

II. The Bandwidth Requirement for Voice Grade Access Should Not be Expanded.

The record in this proceeding provides no persuasive justification for (1) revising the bandwidth requirement for voice grade access or (2) expanding the current definition of supported services to include advanced services. As Ad Hoc stated in its Comments, the Commission found in the *First Report and Order on Universal Service* that "supporting an overly expansive definition of core services could adversely affect all consumers by increasing the expense of the universal service program and, thus, increasing the basic cost of telecommunications for

³ Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Order, 15 FCC Rcd 25257 (2000) ("Referral Order").

Public Notice at 2.

⁵ *Id*. at 3.

all."⁶ The Commission concluded that the goal of universal service was to provide voice grade service, not high speed data transmission service. As Verizon Wireless states in its comments in response to the Notice: "The goal of expanding USF support to pay for greater bandwidth for voice grade access would be to increase access to the Internet, not to improve the quality of voice grade telephone service."⁷ Thus, the real question posed when asking whether the USF should support greater bandwidth for voice grade access is whether the USF should support enhanced access to the internet.

Parties have advanced compelling arguments against revision of the bandwidth requirement. First, SBC and Verizon Wireless question the Joint Board's request for comments on this issue in the absence of evidence that the current frequency range is preventing subscribers from accessing the Internet. Second, it may prove difficult to determine whether subscribers are obtaining access at 28.8 kbps and that the "modem connection between the end user and the Internet service provider" may not "synchronize at 28.8 kbps." Third, just as with other advanced services, "expanding the definition of universal service to include some higher minimum bandwidth might have the perverse effect of depriving consumers of access to the broadest possible array of carriers that provide service to which most residential consumers subscribe." Finally, the modification of the required bandwidth for voice services for the purposes of

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Ad Hoc at 4; *Federal-State Joint Board On Universal Service*, CC Docket No. 96-45, First Report and Order, 12 FCC Rcd at 8811-12 (1997)("First Report and Order on Universal Service").

Verizon Wireless at 3.

⁸ SBC Comments at 6; Verizon Wireless at 3.

⁹ Sprint at 8.

¹⁰ BellSouth at 5.

"improving" dial-up Internet access constitutes a fundamental change in the definition of core services. As such, SBC's position is correct in explaining that the Joint Board and the Commission would "have to decide that dial-up Internet service should be added to the list of cores services" before providing support for such an "improvement." Accordingly, Ad Hoc joins CUSC in urging the Commission to decline "to specify a higher bandwidth or bit-speed in the definition of voice-grade access." 13

III. There is Overwhelming Opposition to Expanding the Definition of Core Services to Include Advanced Services.

The overwhelming majority of parties oppose including advanced services in the list of services to be supported by universal service. These parties believe that adding advanced services to the core services complement would increase the size of the USF substantially; would violate the Commission's policy of competitive neutrality; would not meet relevant statutory requirements; and would not be justified by market conditions.

A. The Enormous Expense Associated with the Inclusion of Advanced Services in the Universal Service Definition Far Outweighs any Expected Benefits.

Comments in response to the Joint Board's *Notice* provide detailed support for Ad Hoc's view that the costs of including advanced services in the list

Competitive Universal Service Coalition ("CUSC") at 11-12. See, also, CTIA at 4; SBC at 7; Verizon at 5.

¹² SBC at 6.

¹³ CUSC at 14.

of core services receiving USF support clearly would outweigh any expected benefits. Most parties acknowledge that expansion of the core services list would increase costs for virtually all subscribers of telephone services. 15 NECA estimates that it could cost \$11-billion to provide broadband to rural networks, 16 and Verizon predicts that the inclusion of advanced services in the definition of universal service could triple the size of the fund. 17 The lowa Utilities Board explains that the NECA estimate does not include "digital subscriber line (DSL) equipment, switch and backbone transport or ongoing maintenance expenditures" and that the estimate only covers the costs associated with upgrading about 5% of total nationwide loops (or 3.3 million lines). 18 The lowar Utilities Board further notes that if, in the alternative, the fund is capped, the inclusion of additional services in the list of core services would reduce funding support for the current list of services. 19 Ad Hoc agrees with other commenters that the Commission faces two options if it expands the list of core services to include advanced services: substantially increase the size of the fund (and thus the cost of basic service for virtually all consumers) or reduce the funds available to provide support for basic services – services for which the fund was originally intended. Neither of these options should be acceptable at this time.

See, e.g., AT&T at 6; AT&T Wireless at 2; Bell South at 7; CUSC at 9; Illinois Commerce Commission at 5; Iowa Utilities Board at 5; Qwest at 2; Verizon at 6; Verizon Wireless at 4; WorldCom at 18.

See AT&T at 7; AT&T Wireless at 2; Iowa Utilities Board at 4; Qwest at 2; Verizon at 6; WorldCom at 18.

¹⁶ WorldCom at 18.

¹⁷ Verizon at 6.

lowa Utilities Board at 4, footnotes omitted.

¹⁹ *Id*.

B. Adding 'Advanced Services' to the List of Core Services Eligible for Universal Service Support Undermines Competitive Neutrality.

As noted in Ad Hoc's initial comments, the Commission adopted "competitive neutrality [as] an additional principle upon which [it bases] policies for the preservation and advancement of universal service." Competiteve neutrality requires that Commission rules and policies do not "unfairly advantage nor disadvantage one provider over another, and neither unfairly favor nor disfavor one technology over another."

Commenters have provided the Joint Board with a litany of reasons why the proposal to include advanced services in the list of core services violates this principle of competitive neutrality. First, a Commission decision to include support for advanced services under the auspices of universal service would favor specific telecommunications carriers over others. As AT&T points out in its comments "[u]nder Section 214(e), carriers seeking universal service support for a particular service must offer all the 'core' services designated by the commission." As such, not all providers of advanced services (for example, carriers that only provide DSL) would be Eligible Telecommunications Carriers (ETCs), and thus would be ineligible for USF support. Perhaps most problematic is the fact that many ETCs could lose their status. One commenter notes that if the Commission required "providers to offer such services as a

²⁰ First Report and Order on Universal Service at 8801; Ad Hoc at 11.

²¹ Id

²² AT&T at 6.

²³ AT&T at 6; WorldCom at 17.

²⁴ CTIA at 3.

condition to receiving universal service support, it would sharply reduce the number of and diversity of carriers competing for customers in high-cost areas."²⁵ Ad Hoc agrees with the Cellular Telecommunications & Internet Association ("CTIA") that expanding of the definition of core services could ultimately lead to a situation in which fewer providers of voice services are eligible to seek support to provide services that are subscribed to by a "substantial majority" of residential customers because they do not provide advanced services *in addition to* voice services.²⁶ Thus, those consumers most in need, and in fact the purported beneficiaries of the fund, may ultimately end up with an even less competitive telecommunications marketplace.²⁷

Second, a policy to subsidize advanced services through the universal service fund may favor traditional, wireline technologies. The Illinois Commerce Commission has noted quite aptly that,

If the Commission employs a policy that is not technology neutral there is a real risk that the entrance of carriers using alternate technologies such as fixed wireless and satellite would be substantially hindered because the ILEC's receipt of universal service funding would subsidize the ILEC's provisioning of advanced telecommunications and information services, thereby placing any new competitors deploying alternative technologies to provide these services at a substantial competitive disadvantage.²⁸

Qwest also notes that in many rural areas the alternative technologies, such as satellite, wireless, or cable modem services, may be more "economical" than the

Such an outcome is especially worrisome in the face of data showing that demand for advanced services continues to be low. See discussion at 11-12.

²⁵ AT&T Wireless at 2.

²⁶ CTIA, at 3.

Illinois Commerce Commission at 5. See, also, AT&T Wireless at 2; Iowa Utilities Board at 5; Qwest at 2-3.

provision of DSL to all subscribers in a study area.²⁹ Verizon also argues that "in sparsely-populated areas, wireless technologies (satellite and fixed) rather than wireline facilities may be the most cost-effective way of delivering broadband services to individual homes."³⁰ Yet, if the Commission were to adopt a policy to subsidize broadband deployment through the universal service mechanism, it could stifle the deployment of less expensive, more efficient technologies.

At a recent press conference Chairman Powell stated that:

Competition in the digital broadband world should come from many platforms. Competition will be both intra-model and inter-modal. Competition will come from carriers providing choice through similar platforms and interconnection with incumbents. A great deal of competition, however, particularly for residential consumers, will come from other platforms such as cable and wireless systems.³¹

The Board and the Commission should not single out one service, on one platform, for USF support. Disparate treatment of functional substitutes would harm competitive markets. As the Commission itself has recognized: "Our role is not to pick winners and losers, or to select the best technology to meet consumer demand. We intend to rely as much as possible on free markets and private enterprise."

²⁹ Qwest at 2-3.

³⁰ Verizon at 7.

Michael K. Powell, Chairman, Federal Communications Commission, "Digital Broadband Migration Part II," Press Conference [as prepared for delivery], October 23, 2001, http://www.fcc.gov/Speeches/Powell/2001/spmkp109.html.

In the Matter of Inquiry Concerning the Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996, CC Docket 98-146, Report, 14 FCC Rcd 2398 at 2402 (1999).

C. The Deployment of Advanced Services Has Been Slow Due, In Part, to Limited Demand for Such Services.

Comments in response to the Joint Board's Notice indicate that the level of demand that currently exists for advanced services does not meet the statutory standard for inclusion in the list of services eligible for USF support.

The Joint Board and the Commission must consider the extent to which advanced services "have, through the operation of market choices by customers, been subscribed to by a substantial majority of residential customers." No commenter has suggested that advanced services meet this test.

Instead most commenters agree that the "take rate" for advanced services is quite minimal.³⁴ Verizon states that just 1% of its subscribers take DSL.³⁵ According to some commenters, the "take rate" for all advanced services is just 12%.³⁶ Both SBC and Ad Hoc cite to studies indicating that just 51% of households even own computers.³⁷ Thus, only half of the existing households would even have the ability to use advanced services even if they were provided at no charge. Ad Hoc reminds the Joint Board and the Commission that a recent survey conducted by the Yankee Group indicated that 93% of households with computers are connected to the Internet already.³⁸

³³ 47 U.S.C. § 254(c)(1).

AT&T at 2; AT&T Wireless at 4; Bell South at 7; CUSC at 11; Qwest at 3; Sprint at 3; Verizon Wireless at 4; WorldCom at 3.

Verizon at 6.

lowa Utilities Board at 4; SBC at 10.

³⁷ Ad Hoc at 8; SBC at 10-11.

Ad Hoc at 8, citing Yankee Group News Release, "Yankee Group Survey Shows 93% of PC Households are Accessing the Internet," October 29, 2001, http://www.yankeegroup.com/webfolder/yg21a.nsf/press/6ABA4CE8B17F3D2C85256AF00069A2 8A?OpenDocument.

During a recent press briefing, Rich Schadelbauer, economic analyst at the National Telephone Cooperative Association ("NTCA"), noted that there was an "extremely low take rate," for advanced services. According to the most recent broadband deployment survey of its members undertaken by NTCA, "4% of those customers that could receive cable modem service subscribe, and 3% of customers choose to subscribe to DSL (digital subscriber line) service when available. In areas where responding NTCA companies have deployed wireless broadband services, 2% of customers have subscribed."³⁹ NTCA is advocating that the Commission contemplate the inclusion of advanced services in the list of core services despite its own research that shows such miniscule take rates.⁴⁰ The only benefit to be gained by the inclusion of advanced services at this time in the list of supported services may be "increased profits for the supported companies."⁴¹

D. Consumers Currently Have Ample Access to Advanced Services; the Commission Should Resist Efforts to Frame Broadband Deployment as a "Supply Problem."

The Joint Board and the Commission should be careful not to equate a limited "take rate" for advanced services with limited supply. WorldCom, for example, states in its comments: "If there is an impediment to broadband, the significant issues are on the demand-side, not the supply-side."⁴²

³⁹ "Low Demand Leads Rural Telcos to Slow Broadband Deployment", *TR Daily* (December 10, 2001).

See NTCA at 2, for example.

⁴¹ Illinois Commerce Commission at 4.

WorldCom at 3.

The proposal to add advanced services to the list of core services supported by the universal service fund also lacks merit because, as Ad Hoc demonstrated in its initial comments, consumers currently have ample public access to advanced information services. Other commenters share Ad Hoc's view. Sprint states that "...the Commission has provided substantial funding to enhance access to advanced services for schools, hospitals and libraries. This targeted funding of high-speed services adequately addresses the education and public health and safety aspects to be considered in defining universal services."

Furthermore, "The E-Rate program has addressed any need for high-speed services for education and public health safety purposes."

Sprint's position is fully consistent with Ad Hoc's comments.

E. Subsidization of Individual Subscriber Access to "Advanced Services" Through the Universal Service Fund Does Not Meet the Statutory Requirements of an "Essential" Service.

In addition to Ad Hoc, other parties maintain that provision of advanced services to all households is not essential to education, public health or public safety. WorldCom states that, "Internet access services do allow an end-user to reach the Internet, which is full of helpful information, but that information offering does not rise to the level of a necessity as contemplated by the statute's use of the word "essential." Additionally, this information can be accessed in many other places that are publicly available and free to the consumer. For example, libraries, phone books, and textbooks are also means to access such

⁴³ Ad Hoc at 9-11.

⁴⁴ Sprint at 7.

⁴⁵ *Id.* at 6.

information. Ad Hoc echoes SBC's sentiments: "No essential functionality or resource is available exclusively via advanced services." Furthermore, as Ad Hoc's initial comments demonstrate, consumers do have ample access to advanced services at little or no cost through their public libraries and schools. 48

AT&T Wireless advises that the Joint Board and the Commission should distiguish between "desirable" and "essential." "For purposes of changing the universal service definition under section 254, 'desirable' is not synonymous with 'essential'". ⁴⁹ In addition, AT&T Wireless also observes that "Section 254(c)(1) plainly requires a demonstration that a telecommunications service has become a part of everyday life before the Commission may add it to the list of supported services. Advanced services – wireless or landline - simply have not reached that level." ⁵⁰

F. Increased Competition, Not Subsidization, Will Ensure that Broadband Providers Respond to Demand for Reasonably Priced, High Quality Advanced Services.

Competition, as opposed to regulatory mandate, should be the instrument of choice for promoting advanced services deployment. Indeed, there is proof that the market for broadband deployment is developing and evolving in the present, without universal service support, even if "take rates" for traditional services remain low. Bruce P. Mehlman, Assistant Secretary for Technology Policy at the United States Department of Commerce, noted that "[b]roadband is

⁴⁶ WorldCom at 13.

⁴⁷ SBC at 9.

⁴⁸ Ad Hoc at 9-11.

⁴⁹ AT&T Wireless at 3.

on a faster penetration path than cable television, VCRs, CD players, and cell phones. Add to this data from recent J.P. Morgan, RHK and McKinsey & Co. studies – suggesting that the supply of broadband connections significantly exceeds demand for them – and many conclude that there is no 'problem' with the pace of broadband deployment at all."51 WorldCom addresses this point by stating "[t]hough residential broadband subscribership rates are estimated to reach only 10 percent of the population by 2001, this penetration level far exceeds the historic penetration levels of other technologies as they were introduced in the marketplace." 52 Ad Hoc agrees with the Illinois Commerce Commission's argument that "the fact that the deplyment of advanced services is facing certain challenges in some high-cost areas does not necessarily imply that market forces have completely failed."53 Additionally, in a recent study supporting competition over regulation, the National Research Council concluded that "...it would be premature to embark on a comprehensive new universal service program until the overall shape of residential deployment and the nature of broadband services are better understood. The committee does not believe, at least at present, that a social contract analogous to that developed for telephony would be appropriate for broadband."54

⁵⁰ Id at 4

⁵¹ Bruce P. Mehlman, Assistant Secretary for Technology Policy, United States Department of Commerce, "Rebuilding Our Broadband Future," remarks delivered October 26, 2001 before the NECA-NARUC Broadband Deployment Conference, Arlington, VA, http://www.ta.doc.gov/Speeches/BPM_011026 Broadband.htm.

WorldCom at 22.

Illinois Commerce Commission at 5.

Committee on Broadband Last Mile Technology, Computer Science and Telecommunications Board, Division on Engineering and Physical Sciences, National Research Council, *Broadband: Bringing Home the Bits* (Prepublication Copy), (National Academy Press: Washington DC, 2001) at S-21, http://www.nap.edu/catalog/10235.html?onpi_topnews_112901.

IV. Soft Dial Tone Services Should Not Be Considered a "Core Service Issue."

Although Ad Hoc remains sympathetic to the goals of providing soft dial tone services to consumers, Ad Hoc urges the Commission to address soft dial tone in another forum. Other commenters agree with Ad Hoc, but for varying reasons. The CUSC agrees with Ad Hoc that the Commission should, in fact, require ILECs to provide soft dial tone services, but suggests that the Commission deal with the issue as part of its proceeding regarding emergency services. 55 The Texas 9-1-1 Agencies and the National Emergency Number Association express concern regarding the lack of consistency or agreement as to operational standards for soft dial tone and the possible confusion that may result if soft dial tone services were included in the list of core services. 56 CTIA expresses worry that soft dial tone is a "wireline concept" and that the addition of soft dial tone may jeopardize the ETC status of some carriers.⁵⁷ USTA asserts that soft dial tone is not a telecommunications service because it is "not offered for a fee directly to the public."58 Ad Hoc urges the Commission to explore outside this proceeding important soft dial tone issues before considering subsidization of soft dial tone through the USF.

V. Ad Hoc Opposes Any Efforts to Include Toll Service or Expanded Area Service in the Definition of Universal Service.

⁵⁵ CUSC, at 6-7.

Texas 9-1-1 Agencies and the National Emergency Number Association, at 3.

⁵⁷ CTIA, at 6-7.

⁵⁸ USTA, at 5.

The definition of supported services should not be modified to include toll services and Expanded Area Services.⁵⁹ In its *Twelfth Report and Order*,⁶⁰ the Commission declined to include toll services in the definition of Universal Service. The Commission concluded that other measures undertaken in the Order would address the particular burden of toll charges with respect to tribal lands. Furthermore, the Commission found that "the provision of federal support to offset the cost of intrastate toll service would expand upon the definition of supported services in Section 254(c) of the Act, and would raise issues of competitive neutrality to the extent that interexchange carriers would not be eligible to receive such enhanced Lifeline support."

Although many commenters share Ad Hoc's position that, in the vast majority of cases, toll services are not "essential services," a few commenters maintain that toll services are essential to public health, safety, and education. The State of Alaska proposes that "the basket of 'core' services be expanded to include a credit in the range of \$10-\$18 per month for intrastate toll calls made by low income consumers residing in areas with no more than 500 to 1000 access lines" in their local calling area. Although Ad Hoc supports the targeting of USF support to low income consumers, Ad Hoc joins the California PUC in opposing the use of federal universal service support to subsidize services that are not

Ad Hoc Comm

OP Ad Hoc Comments at 16-17.

Federal-State Joint Board on Universal Service; Promoting Deployment and Subscribership in Unserved and Underserved Areas, Including Tribal and Insular Areas, CC Docket No. 96-45, Twelfth Report and Order, Memorandum Opinion and Order, and Further Notice of Proposed Rulemaking, 15 FCC Rcd 12208, 12238 (2000) ("Twelfth Report and Order").

See, e.g., AT&T Wireless at 4; Sprint at 9; Verizon at 8.

See, e.g., NTCA at 3; OPASTCO at 3; State of Alaska at 27.

"basic service." Furthermore, Verizon is right in recommending that the "Commission should allow the state commissions to continue to deal with these intrastate rate issues through the state rate-setting process." 65

VI. Conclusion

In view of the foregoing, Ad Hoc urges the Joint Board to refrain from recommending any modifications to the current list of core services.

Respectfully submitted,

AD HOC TELECOMMUNICATIONS USERS COMMITTEE

By: Sull Shareh

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Its Attorneys

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⁶⁴ CPUC Comments at 5.

⁶⁵ Verizon at 8.

Certificate of Service

I, Michaeleen I. Williams, hereby certify that true and correct copies of the preceding Reply Comments of the Ad Hoc Telecommunications Users Committee were served this January 4, 2002 via the FCC Electronic Comment Filing System ("ECFS").

Michaeleen I. Williams

Vain I. Win

Legal Assistant

January 4, 2002